Charity Assets Trust

Positive absolute returns with low volatility for charities

C class August 2023 **Issue 138**

Higher global yields and fears about slowing economic growth in Europe and China saw the major bond and equity markets decline in August. The fund retreated, too, as market declines were not sharp or deep enough to trigger our potent derivative protections.

No single factor drove global yields higher. Instead, a smorgasbord of drivers included: 'higher for longer' interest rate policies amidst persistent inflation; heavy planned US Treasury issuance; robust US economic data; and Fitch's US government credit rating downgrade, which highlighted the scale of the Federal deficit – already a whopping 6.5%, with full employment! The fund's long-dated UK and US inflation-protected bonds suffered from the rise in yields. These should rally in the event of recession.

In Europe, flash PMIs (economic outlook indicators) pointed to a sharp contraction. Meanwhile, China's re-opening is spluttering. Its c $60tn property market is reeling after years of regulatory pressure, deteriorating demography, shaken household confidence and a broken Ponzi-esque funding model. Piecemeal stimulus measures from Beijing have so far failed to reassure investors, but there's little in the price for good news. We believe fatter market tail risks from China's economy – and politics – will remain with us for years to come. Expect surprises.

China stocks aside, equity markets' August retreat was relatively orderly. An uneventful earnings season plus a lack of policy or inflation shocks has kept volatility ('vol') in markets low. That has kept the vol-targeting machine-led investment strategies – so powerful in today's markets – invested. The fund's small equity allocation retreated with indices but, given the steady nature of the market decline, our derivatives have yet to kick in, so were a small performance drag. The same goes for our c 16% position in the yen, which declined modestly despite the Bank of Japan's relaxation of yield curve control in July. Just like the derivatives, a significant market shock could see dramatic yen appreciation. Our c 8% oil position was the primary positive contributor, helped by continued OPEC supply-side discipline.

Markets still believe in a 'soft landing' – inflation dissipates without a recession. Yet we stick to our increasingly unfashionable belief that record monetary tightening's full impact has yet to be felt. Locked-in low rates and faster nominal GDP growth have likely deferred – but not de-fanged – the biting point. Even America's remarkably robust economy is displaying cracks. Covid-era excess savings have been spent; consumer confidence is slowing; Q2 GDP growth and recent payrolls were revised lower; US department stores are reporting rising credit card delinquencies.

Central banks could soon find themselves in a much trickier situation as inflation 'base effects' and (now rising) energy prices switch from being disinflationary tailwinds to inflationary ones. If economies continue to slow, this could raise recession risk by forcing central banks to stay inappropriately tight. But if economies reaccelerate – especially in the US – it raises the spectre of a second inflationary wave, with further rate hikes. From our derivatives to dollars, yen to bonds, the fund remains well-positioned for the reassertion of gravity in financial markets, and the opportunities that will lie beyond.

Ruffer performance is shown after deduction of all fees and management charges, and on the basis of income being reinvested. Past performance is not a guide to future performance. The value of the shares and the income from them can go down as well as up and you may not get back the full amount originally invested. The value of overseas investments will be influenced by the rate of exchange.

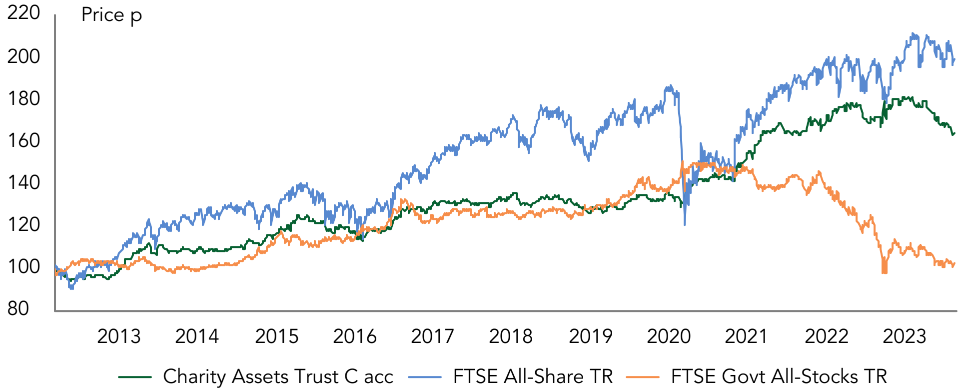
Investment objective

The fund will follow an 'absolute return' investment strategy. This means the Manager will not endeavour to track or 'outperform' a specific benchmark or stock market index, but instead seek to generate consistent positive returns regardless of the prevailing market conditions. The Manager expresses its absolute return approach through two principal investment objectives for the fund: 1) preservation of capital, which the Manager defines as not losing money on a rolling 12 month basis and 2) delivering consistent positive returns (through a combination of capital and income) greater than the return on cash (as defined by the Bank of England Bank Rate).

Responsible Investment Policy

The fund has strict restrictions on investment in alcohol, armaments, gambling, pornography, predatory lending, tobacco, oil sands and thermal coal. It also follows a proactive voting and engagement approach with companies held within the fund. The fund is monitored against UN Global Compact principles, MSCI's ESG Metrics and the managers also monitor the fund's carbon metrics.

Performance since launch on 8 March 2012



C Accumulation units	Performance %
August 2023	-1.1
Year to date	-8.2
1 year	-3.6
3 years	15.8
5 years	24.8

Unit price as at 31 August 2023	p
C accumulation	**166.12**
C income	**135.44**

12 month performance to June %	2019	2020	2021	2022	2023
Charity Assets Trust C acc	-1.8	8.7	15.6	4.0	-1.8
FTSE All-Share TR	0.6	-13.0	21.5	1.6	7.9
FTSE Govt All-Stocks TR	4.9	11.2	-6.2	-13.6	-14.5

Source: Ruffer LLP, FTSE International

Charity Assets Trust as at 31 Aug 2023

Asset allocation

Currency allocation

Asset allocation	%
Short-dated bonds	42.0
Illiquid strategies and options	13.1
Long-dated index-linked gilts	8.4
Non-UK index-linked	6.2
Gold exposure and gold equities	5.6
Index-linked gilts	4.8
Cash	1.9
UK equities	7.9
North America equities	3.1
Commodity exposure	2.8
Asia ex-Japan equities	2.4
Europe equities	1.6
Other equities	0.3

Currency allocation	%
Sterling	52.9
US dollar	17.3
Yen	17.1
Australian dollar	7.8
Euro	0.1
Other	4.8

10 largest equity holdings*

Stock	% of fund
BP	4.3
Alibaba Group Holding	0.8
Taiwan Semiconductor Manufacturing Co	0.7
Swire Pacific	0.6
Harmony Energy	0.5
Gresham House Energy Storage Fund	0.5
Agnico Eagle Mines	0.5
Schroder BSC Social Impact Trust	0.5
PRS REIT plc	0.4
Cigna	0.3

5 largest bond holdings

Stock	% of fund
US Treasury FRN 31 Jan 2025	9.2
UK Treasury index-linked 0.125% 2026	4.8
Japanese govt bonds 0.005% 1 May 2024	4.5
Japanese govt bonds 0.005% 1 Apr 2024	4.5
Japanese govt bonds 0.005% 1 Jun 2024	4.3

*Excludes holdings in Ruffer funds

Source: Ruffer LLP.
Pie chart totals may not equal 100 due to rounding.

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Fund size £513m

Fund information

	%
Ongoing Charges Figure	1.14
Annual management charge	1.0 + VAT
Maximum initial charge	1.0
Yield	1.8
Minimum investment	£500
Ex dividend dates	15 January, 15 April, 15 July, 15 October
Pay dates	15 March, 15 June, 15 September, 15 December
Dealing	Weekly forward, every Wednesday where this is a business day Plus the last business day of the month
Cut off	12.00pm on Wednesday (where this is a business day) and the last business day of the month
Unit classes	Accumulation and income

	Accumulation	Income
ISIN	GB00B740TC99	GB00B7F77M57
SEDOL	B740TC9	B7F77M5

Manager and investment adviser	Ruffer AIFM Limited
Trustee	BNY Mellon Fund & Depositary (UK) Ltd
Custodian	Bank of New York Mellon SA/NV
Administrator	Bank of New York Mellon (International) Limited
Auditors	Ernst & Young UK LLP
Legal advisers	Eversheds Sutherland (International) LLP
Structure	Common Investment Fund established under section 24 of The Charities Act 1993

Eligible charities are those registered as a charity with the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator and/or Inland Revenue Charities, Bootle, Merseyside (including charities established in Northern Ireland), or exempt from registration with the Charity Commission by virtue of the Charities Act 1993 (as amended).

Fund Managers

Jos North

INVESTMENT DIRECTOR

Joined Ruffer in 2012 and now leads Ruffer's UK institutional business, including UK defined benefit, defined contribution and local government pension schemes, and UK charities. He is a member of the CISI, following completion of the CISI diploma and co-manages two of Ruffer's flagship funds.

Jenny Renton

INVESTMENT DIRECTOR

Joined Ruffer in 2013 and leads Ruffer's US team and co-manages two of Ruffer's flagship funds. Previous roles included oil and gas companies and the fund team at Ingenious Investments. She is a CFA charterholder.

Ajay Johal

INVESTMENT DIRECTOR

Joined Ruffer in 2014 from Barclays Wealth. In 2019, he worked as an equity analyst in Ruffer's Hong Kong office, then joined the charities team in London as an Investment Manager. He holds a degree in history and sociology from the University of Warwick and is a member of the Chartered Institute of Securities & Investment.

Ruffer LLP

Ruffer LLP manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 31 July 2023, assets managed by the Ruffer Group exceeded £24.7bn.

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